



ALWAYS THERE FOR YOU
ANNUAL REPORT 2008



WHETHER HERE OR ABROAD, BLUE CROSS HAS BECOME SYNONYMOUS WITH A PROFESSIONALISM AND EFFECTIVE ACTION THAT TRULY MEANS PEACE OF MIND FOR BLUE CROSS MEMBERS.

ANNUAL REPORT 2008

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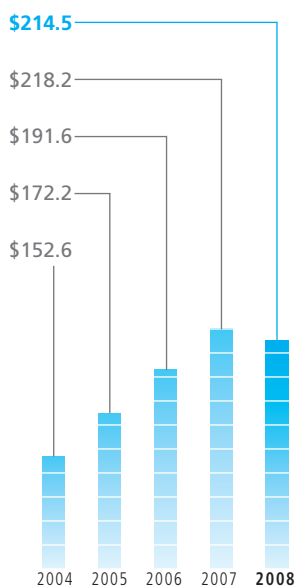




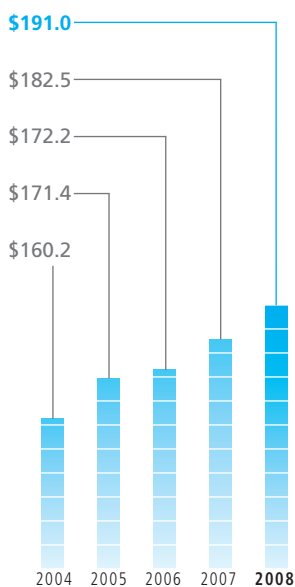
HIGHLIGHTS

(In millions of dollars)	2008	2007	2006	2005	2004
Consolidated net excess	11.1	20.5	19.4	19.5	19.1
Combined total income	191.0	182.5	172.2	171.4	160.2
Combined assets	350.7	350.2	319.3	304.9	277.4
Consolidated surplus	214.5	218.2	191.6	172.2	152.6

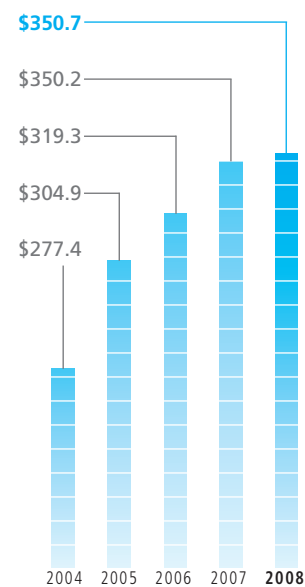
CONSOLIDATED SURPLUS



TOTAL COMBINED INCOME

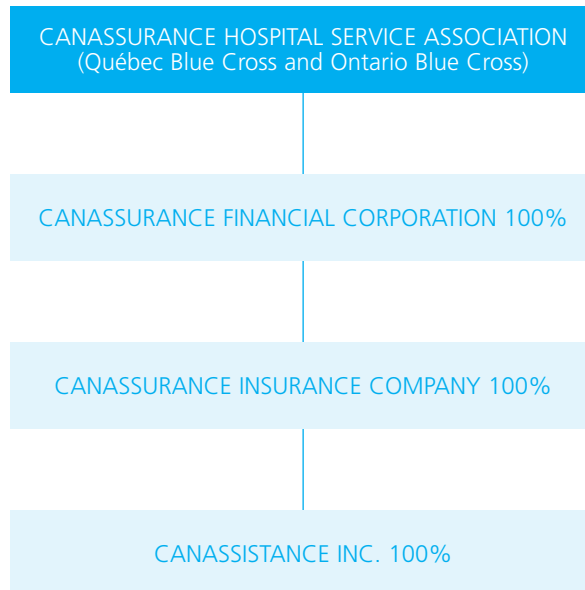


COMBINED ASSETS



The Canassurance Hospital Service Association, which operates under the names Ontario Blue Cross™ (1941) and Québec Blue Cross® (1942), is a legally independent corporation without pecuniary gain that is entirely Canadian owned.

It is licensed by the Blue Cross network to operate in Québec and Ontario. Its relationship with other Blue Cross organizations in Canada and the United States is based on the exchange of information and services, and compliance with high-quality standards. The Association's mandate is to offer quality personal and group health insurance, travel insurance and assistance services. Blue Cross intends to maintain its benchmark standards of excellence by focusing on its human resources development and training.



BLUE CROSS CANASSURANCE GROUP IS PLEASED TO HAVE ACHIEVED ITS KEY OBJECTIVES FOR 2008. ITS RESULTS CAN BE ATTRIBUTED IN LARGE PART TO THE GROUP'S ABILITY TO ADAPT QUICKLY TO NEW REALITIES AND MARKET UNCERTAINTIES, AS WELL AS ITS EXCELLENT FINANCIAL POSITION.

DURING 2009, WE WILL HAVE TO CLOSELY MONITOR ANY EVENTS THAT COULD IMPACT THE GROUP'S OPERATIONS AND, IN PARTICULAR, STAY ATTUNED TO CHANGING CONSUMER NEEDS.

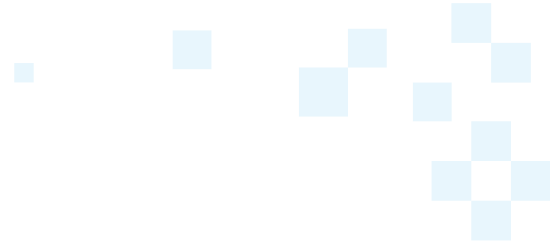
THE HEALTH SYSTEM

Our ability to innovate depends greatly on the laws governing Canada's health system. Most provincial governments have confirmed that although funding for the health system will remain public, the private sector could nonetheless contribute more in the future. For the time being, the general principles of universality, accessibility and quality of health services in the public sector are not being challenged.

As an example, the Castonguay Group Report, tabled in February 2008, recommended giving the private sector a greater role in the funding of Quebec's health system. Nothing further has come of these recommendations and there have been no opportunities for insurance companies to create new types of coverage. In the wake of the report, the Government of Québec is expected to table new legislation in the fall of 2009. It is unlikely, however, that major changes will be made to our public health system.

REDESIGNING OUR INFORMATION SYSTEMS

We have completed the second year of our three-year plan to redesign our information systems. The plan involves all our travel and health insurance operations: sales, management of policies and claims, agreements with distributors and financial functions. We are also taking advantage of this opportunity to improve work processes.



The master plan is currently on schedule and on budget. During the past year, we completed the implementation of the sales module at our Customer Contact Centres in Montréal and Toronto, as well as the first phase of the claims management system; both operations were a resounding success. We also finished setting up the technology infrastructure required to support these systems.

We have opted to apply a progressive deployment strategy for 2009 in order to keep pace with the organization's ability to integrate the changes and to maintain the quality of our customer services. It is worth mentioning that the project will require a significant commitment from the entire organization in order to ensure a smooth transition of our operations.

TRAVEL INSURANCE

Our travel insurance business posted excellent results for 2008. The year began very well across all of our networks, however, this was followed by a slight decline in the fall as a direct result of the weakening of the value of the Canadian dollar and the uncertain economy.

Despite this situation, Canadians appear to be maintaining their short- and medium-term travel plans. The financial crisis in Canada could, however, have an impact on the decisions Canadian consumers make in 2009.

In travel insurance, we have to rely on our brand recognition across the world; this is a visible asset that sets us apart from the competition.

HEALTH INSURANCE

The launch of new products in Québec and Ontario helped grow our health insurance line in 2007. We maintained our growth in 2008 in spite of a more difficult context in Ontario, which was already in recession.

Blue Cross Canassurance Group also continued to introduce new products across all its markets. In Ontario, for instance, we introduced the Blue Balance product, which is primarily sold direct. We also plan to continue conducting market studies in order to stay attuned to the expectations of Ontarians and Quebecers in the area of health insurance and to adapt our product line accordingly.

Our policyholders also now have access to the Blue Advantage program, which entitles cardholders to discounts from suppliers of health products and services across Canada. This program is offered in cooperation with all Canadian Blue Cross organizations.

At a strategic level, in 2009 we will increase our focus on our development actions so as to continue our pace of growth.

MESSAGE FROM MANAGEMENT

ASSISTANCE

We had to strengthen our network of partners worldwide in 2008 in order to respond adequately to the internationalization of travel assistance organizations and market globalization.

We also plan to work more closely with American Blue Cross organizations in 2009 so as to capitalize on the international network of partners they have developed in recent years. We are hoping that this affiliation will open up new growth opportunities for our CanAssistance subsidiary, which already ranks among the leaders in its field in Canada.

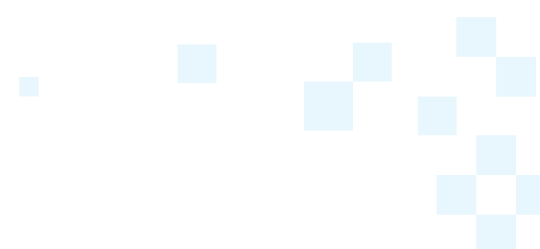
STRATEGIC DIRECTIONS FOR 2009

Blue Cross Canassurance Group has built its reputation on solid foundations; on the organization's values, which are championed by all its members: to be a recognized specialist in health and travel insurance that shows respect for people and strives to provide its members and customers with peace of mind. Our employees will complete their training on these corporate values in 2009.

Our efforts in this area will enable Blue Cross Canassurance Group to build on its already enviable reputation and to continue to improve the quality of its services.

NEW AMF GUIDELINES

In June 2008, the Autorité des marchés financiers issued new guidelines regarding governance, risk management, outsourcing and compliance. Québec's chartered insurers will all be subject to these rules effective 2011. We are working with the AMF and other Québec insurance companies on the implementation of these guidelines.



ECONOMIC SITUATION AND FINANCIAL RESULTS

In spite of the global recession and general loss of confidence in the financial system, Canada, with its strong financial system and public finances, is one of the best-positioned countries to weather the financial storm. This weakening of the economy in no way jeopardizes the financial stability of Blue Cross Canassurance Group. The Group's solvency ratio greatly exceeds required regulatory levels and our combined surpluses provide a solid base for the future development of the organization.

Net excess of Blue Cross Canassurance Group for 2008 was \$17.3 million before the write-down of assets available-for-sale for the entirety of the Group's operations. The major slump in financial markets in the past year and the significant decline in the value of certain shares and bonds call for a \$6.2 million write-down of our investments.

As at December 31, 2008, the Group's consolidated assets totalled \$312.8 million. The consolidated surplus reached \$214.5 million, representing 69% of the Group's consolidated assets.

Gross consolidated income from insurance contributions and premiums of Blue Cross Canassurance Group totalled \$164.5 million in 2008. The Group paid its members and policyholders benefits and rebates amounting to approximately 58.9% of its gross income from insurance contributions and premiums. Consolidated investment income reached \$15.7 million. Lastly, operating expenses amounting to \$45.9 million and \$16.7 million in commissions accounted for 38% of gross insurance income.

ACKNOWLEDGEMENTS

We would like to highlight the excellent work done by our employees and the additional efforts required by the redesigning of our information systems. This was a major challenge in 2008 and will be completed in 2009.

We would like to express our gratitude to the management team, the directors and governors for their dedication and contribution. Year after year, with the cooperation of each and everyone, we succeeded in the remarkable challenge of earning the loyalty and confidence of our members, customers and partners.

Claude Boivin, CA
President and Chief Executive Officer

André Brousseau
Chairman of the Board

ENACTING OUR VALUES AND OUR MISSION

FOR MANY YEARS, BLUE CROSS CANASSURANCE GROUP HAS UNDERTAKEN TANGIBLE INITIATIVES TO SUPPORT MANY GROUPS AND ORGANIZATIONS DEDICATED TO ENSURING THE WELL-BEING OF PEOPLE LIVING IN QUÉBEC AND ONTARIO. WE ARE VERY PROUD OF OUR COMMITMENTS; THEY REFLECT OUR VALUES AND OUR MISSION.

- **The Children's Wish Foundation** works with the community to offer children suffering from life-threatening illnesses an opportunity to have their biggest wish come true. Blue Cross has been a national partner of the Foundation in Canada for more than 15 years.
- Every year, the **Fondation OLO** helps approximately 15,000 disadvantaged women give birth to healthy children, by providing them with eggs, milk, orange juice and vitamin supplements on a daily basis.
- **Centraide/United Way** strives to improve the quality of life of our community and its most disadvantaged members.
- **Quebec Breast Cancer Foundation** works with different groups to support innovative research projects, offer programs to educate and raise awareness of the disease, and support people suffering from breast cancer.
- **L'Arche Canada Foundation** helps create a family environment adapted to people with intellectual challenges.
- **Jean-Christophe André**, a young aerials skier, is a member of Canada's National Development Team. His goal is to qualify for the World Cup and the Olympics.

We provide financial support for many hospital foundations and research projects in Québec and Ontario through our involvement in fundraising activities. In addition, in co-operation with our business partners, we support numerous local agencies whose mission is to improve the health and well-being of young people.



Jean-Christophe André
Aerials skier

CANASSURANCE HOSPITAL SERVICE ASSOCIATION

Québec Blue Cross and Ontario Blue Cross

CONSOLIDATED BALANCE SHEET

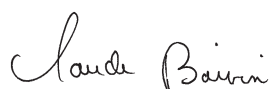
As at December 31 (in thousands of dollars)

	2008	2007
ASSETS		
Portfolio investments (Note 8)	\$282,504	\$292,092
Company subject to significant influence	785	729
Cash	5,508	2,924
Overdue and accrued investment income	987	1,296
Due and overdue subscriptions and premiums	2,202	1,995
Other assets (Note 9)	20,861	15,881
	\$312,847	\$314,917
LIABILITIES		
Actuarial liabilities (Note 10)	\$40,841	\$36,975
Liabilities for claims payable, claims and settlement expenses (Note 10)	18,883	18,710
Unearned subscriptions and premiums (Note 10)	14,252	13,557
Prepaid subscriptions and premiums	3,370	3,555
Deposits and refunds (Note 10)	7,195	8,085
Accounts payable (Note 11)	13,850	15,885
	98,391	96,767
SURPLUS		
Accumulated surplus	226,916	215,822
Accumulated other comprehensive income	(12,460)	2,328
	214,456	218,150
	\$312,847	\$314,917
COMMITMENTS (note 13)		

On behalf of the Board,



André Brousseau, Director



Claude Boivin, CA, Director

CONSOLIDATED EARNINGS

For the year ended December 31 (in thousands of dollars)

	2008	2007
REVENUE		
Gross subscriptions and insurance premiums	\$164,539	\$157,410
Gross subscriptions and premiums earned	\$160,699	\$154,609
Investments (Note 6)	15,705	14,798
Other revenues	4,267	3,753
	180,671	173,160
EXPENSES		
Claims, liability claims and settlement expenses	92,430	90,668
Changes in actuarial liabilities	3,866	678
Commissions	16,671	13,642
Refunds and interest on deposits	721	656
Taxes on premiums	3,771	3,635
Operating (Note 7)	45,921	43,370
	163,380	152,649
NET EXCESS BEFORE PERMANENT IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS	17,291	20,511
Permanent impairment of available-for-sale financial assets	(6,197)	–
NET EXCESS	\$11,094	\$20,511

CONSOLIDATED ACCUMULATED SURPLUS AND COMPREHENSIVE INCOME

For the year ended December 31 (in thousands of dollars)

	2008	2007
ACCUMULATED SURPLUS		
BALANCE , beginning of year	\$215,822	\$195,311
Net excess	11,094	20,511
BALANCE , end of year	\$226,916	\$215,822
COMPREHENSIVE INCOME		
Net excess	\$11,094	\$20,511
Other comprehensive income		
Unrealized gains (unrealized losses) during the year on available-for-sale financial assets, net of income taxes of \$632	(19,306)	102
Reclassification adjustment included in net excess	4,518	(1,619)
Comprehensive income	\$(3,694)	\$18,994
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized gains (unrealized losses) on available-for-sale financial assets		
BALANCE , beginning of year	\$2,328	\$3,845
Change in net unrealized gains on available-for-sale financial assets included in comprehensive income, net of income taxes of \$575	(14,788)	(1,517)
BALANCE , end of year	\$(12,460)	\$2,328

CONSOLIDATED CASH FLOWS

For the year ended December 31 (in thousands of dollars)

	2008	2007
OPERATING ACTIVITIES		
Net excess	\$11,094	\$20,511
Operating items not affecting cash:		
Changes in actuarial liabilities	3,866	4,460
Loss (gain) on disposal, changes in the value of portfolio investments and other items not affecting cash	6,233	(4,545)
	21,193	20,426
Net change in non-cash-working capital	(7,568)	1,041
	13,625	21,467
INVESTING ACTIVITIES		
Acquisitions		
Portfolio investments	(294,171)	(257,048)
Capital assets	(412)	(701)
Disposals		
Portfolio investments	283,542	236,351
	(11,041)	(21,398)
INCREASE IN CASH AND CASH EQUIVALENTS		
CASH , beginning of year	2,584	69
	2,924	2,855
CASH , end of year	\$5,508	\$2,924

Cash flows related to operating activities include no interest payments (2007 - none) and income tax payments of \$1,151 (income taxes recovered in 2007 - \$993).

MANAGEMENT REPORT

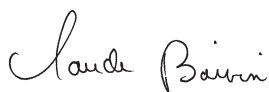
The financial statements of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) and the financial information contained in this annual report are the responsibility of management and have been approved by the Board of Directors.

The Association has an adequate internal control and auditing system, within acceptable cost limits. The purpose of these mechanisms is to ensure a reasonable degree of certainty that financial transactions are correctly recorded and carried out with the required authorization, that the financial statements are properly prepared, and that assets are well protected.

The Board of Directors fulfils its responsibilities with regard to financial reporting and the financial statements contained in this annual report primarily through its Audit Committee, which is composed of three Board members who are not managing officers of the Association.

The Audit Committee meets periodically with management and also meets with the external auditors. Their main mandate is to review the financial statements and to recommend their approval. The external auditors may, at their discretion, meet with the Audit Committee in the presence or absence of management to discuss questions pertaining to the auditing and financial reporting.

The actuarial liabilities have been evaluated by Mr. Luc Farmer, FCIA, FSA, Actuary, and his report certifies the actuarial liabilities. The financial statements have been audited by the firm Mallette L.L.P., Chartered Accountants, and the report they have prepared indicates the scope of their audit and their opinion on the financial statements.



Claude Boivin, CA, President and Chief Executive Officer
Montréal, February 4, 2009



Éric Sénécal, CA, Corporate Controller

OPINION OF THE APPOINTED ACTUARY

I have valued the policy liabilities in the consolidated balance sheet of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross) as at December 31, 2008 and its change in the consolidated statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate valuation assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

The valuation is in conformity with the *Québec Insurance Act* and its regulations.



Luc Farmer, FCIA, FSA, Appointed Actuary
Montréal, February 4, 2009

AUDITORS' REPORT

To the Members of Canassurance Hospital Service Association (Québec Blue Cross and Ontario Blue Cross)

We have audited the consolidated balance sheet of CANASSURANCE HOSPITAL SERVICE ASSOCIATION (Québec Blue Cross and Ontario Blue Cross) as at December 31, 2008 and the consolidated statements of earnings, accumulated surplus and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Association as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Mallette
L.L.P.,
Chartered Accountants
February 4, 2009

¹CA auditor permit No. 12506

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Association, incorporated in April 1942 under a *Private Bill of the Legislative Assembly of Québec*, is a legal person without pecuniary gain whose object is to offer assistance, prevention and compensation services in the field of health. The Association may also, through insurers it controls, offer personal insurance and property and casualty insurance.

2. SIGNIFICANT ACCOUNTING POLICIES**Consolidation Policies**

These consolidated financial statements include the accounts of the Association and those of its subsidiary, Canassurance Financial Corporation and those of Canassurance Insurance Company and CanAssistance Inc., wholly owned subsidiaries.

Use of Estimates

Presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from these estimates.

Revenue Recognition

Revenues correspond to premiums and subscriptions that were exposed to risk during the financial year.

Revenue from assistance contracts is recognized on a straight-line basis over the contract period.

Investments income is accounted for on the basis of the exercise method.

Income Taxes

The Association's subsidiaries account for as an income tax expense or revenue the amount of income taxes payable or recoverable for the year and the change in the future income tax assets and liabilities accounts based on current income tax rates applicable to taxable income from years in which the differences between the carrying values and tax basis of assets and liabilities are expected to reverse. A future income tax asset is accounted for when it is more likely than not that the societies will benefit from the tax relief related to deductible temporary differences between the values.

Investments

Trade-date accounting is used to account for all purchase or sale of investments subject to normal delay of delivery.

Transaction costs for financial assets and liabilities classified or designated as held-for-trading are recognized immediately in net income. Transaction costs for financial assets classified as available-for-sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method.

Held-for-trading Financial Assets

The Association has chosen to classify financial assets matching actuarial liabilities as held-for-trading. Investments designated as held-for-trading are recognized at fair value, which is determined based on market prices. Gains and losses are recognized in the net income during the period in which they occur. Gains and losses from matched bonds are offset by corresponding changes in the actuarial liabilities which also flow through net income.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Held-to-maturity Financial Assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Association has the positive intention and ability to hold to maturity. They are recorded at amortized cost using the effective interest method less any amortization. Gain or loss is recognized in net income when the financial asset is derecognized or depreciated, as well as through the amortization process.

Loan

The mortgage is not quoted on an active market and is classified as a loan and measured at amortized cost using the effective interest rate method. Gain or loss is recognized in net income when the financial asset is derecognized or depreciated, as well as through the amortization process.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets designated as available-for-sale, or which are not classified as loans and receivables, held-to-maturity investments or held-for-trading financial assets. They are recognized at fair value, which is determined based on market price. Gain or loss is recognized in other comprehensive income until the financial asset is derecognized or depreciated. The accumulated gain or loss under "Accumulated other comprehensive income" must then be reclassified in net income for the year.

Investment in Company Subject to Significant Influence

Investment in company subject to significant influence is accounted for using the equity method.

Foreign Currency

Foreign currency operations are converted using the temporal method. Under this method, monetary assets and liabilities are converted at the rate of exchange prevailing at year end and non-monetary assets and liabilities are converted at historical rates. Exchange gains or losses on translation are recognized in income.

Capital Assets

Capital assets are accounted for at cost.

Depreciation of capital assets is based on their life using the straight-line method at rates between 10% and 33%.

Actuarial Valuation

The actuarial liabilities, claims payable and deposit and refund liabilities were determined and certified by the Association's actuary who is responsible for the valuation. The liability for claims and settlement expenses was also determined by the actuary and corresponds to claims outstanding but not yet settled and to an estimate of existing but unreported claims.

Pension Plans and Other Retirement Benefits

To account for its obligations under employee benefit plans and the related costs, net of plan assets, the Association has adopted the following policies:

- Cost of pensions, other retirement benefits and post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Pension Plans and Other Retirement Benefits** (Continued)

- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from amendments to the plan are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- Expenses are charged to operations and include:
 - i) the cost of pension, other retirement benefits and post-employment benefits provided in exchange for employees' services rendered during the year;
 - ii) the interest cost of obligations, the expected return on pension fund assets and the amortization of unrecognized actuarial gains and losses if in excess of 10% of the greater of the projected benefit obligations or fair value of the plan assets over the expected average remaining service life of the employee group covered by the plans. The average remaining service life of employees participating in this plan is 27 years (2007 - 27 years). The average remaining service life of employees covered by the complementary retirement regime is 18 years (2007 - 18 years).

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Association adopted recommendations by the Canadian Institute of Chartered Accountants (CICA) with respect to Section 1535 *Capital Disclosures*. This section establishes standards for disclosing information about an entity's capital that enables users of its financial statements to evaluate the entities objectives, policies and processes for managing capital. These new standards are for disclosure only and did not have an impact on the Association's financial results.

The Association also adopted the CICA Handbook Section 3862, *Financial Instrument - Disclosures*, and Section 3863, *Financial Instruments - Presentation*. These sections replace existing Section 3861, *Financial Instruments - Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments - Recognition and Measurement*.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Association will be required to comply with CICA recommendations with respect to Section 3064, *Goodwill and Intangible Assets*, which reinforces the approach under which assets are only recorded if they meet the definition of an asset and the recognition criteria for an asset. It also clarifies the application of the concept of matching costs with revenues to eliminate the current practice of recognizing as assets items that do not meet the definition of an asset and the recognition criteria for an asset.

The Accounting Standards Board has published an exposure draft proposing the adoption of International Financial Reporting Standards (IFRS) for the recognition and presentation of financial information of publicly accountable enterprises. These standards would replace current Canadian generally accepted accounting principles and would take effect for financial years beginning on or after January 1, 2011.

The Association is currently evaluating the impact of these new standards on its commercial operations, financial information systems and financial statements.

5. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Association has policies to identify, measure, monitor, mitigate and control risks associated with its financial instruments. The key risks related to financial instruments are market risk (interest rate, equity and currency), credit risk and liquidity risk. The following sections describe how the Association manages each of these risks.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market factors.

- Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability.

The Association is exposed to interest rate risk, particularly with respect to life insurance and disability pension products. It establishes methods and guidelines to maintain the risk of losses at acceptable levels by matching asset and liability cash flows as closely as possible for these business lines. Risk measurements initially include the financial flow variance average duration and exposure of the surplus to several specific hypothetical return curves.

To manage the risk of fluctuations in yield credited to liabilities for policies in relation to the yield on assets, the Association matches its assets and liabilities using high-quality investments, primarily consisting of long-term fixed yield securities. The strategy also takes into account the constraints imposed by the investment policy, particularly with respect to portfolio diversification.

As at December 31, 2008, if interest rates at that date had been 10 basis points lower with all other variables held constant, other comprehensive income would have been \$744 (net of income taxes) higher, mainly as a result of an increase in the fair value of financial assets classified as available-for-sale. A change in the opposite direction would have a similar impact, but in the opposite direction.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

5. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Market Risk (Continued)

• Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

To ensure sound management of the equity risk, the Association's investment policy clearly defines quantitative and qualitative limits for the use of equities. The target asset composition in the form of equities is designed to maximize the Association's returns and reduce the potential risk concerning guaranteed minimum returns under long-term commitments.

The Association estimates that a sudden 1% drop in the stock markets at the beginning of the year, followed by market stability for the rest of the year, would reduce other comprehensive income by \$454 (net of income taxes) mainly as a result of a decrease in the fair value of financial assets classified as available-for-sale. A change in the opposite direction would have a similar impact, but in the opposite direction.

Permanent impairment

At the end of each year, the Association must evaluate if there is objective evidence of a decline in the fair value of financial assets other than those classified as held-for-trading. Objective evidence of a decline includes observable data that comes to the Association's attention about any of the following events: significant financial difficulties of the issuer, a breach of contract, granting a concession that the holder would not otherwise consider, the growing possibility that the issuer will declare bankruptcy or undertake another form of financial reorganization and disappearance of an active market due to financial difficulties.

• Currency Risk

Currency risk is the risk that the Association will incur losses due to exposure to foreign currency fluctuations. The Association has adopted a policy to avoid exposing itself to currency risk. Liabilities are matched with assets of the same currency.

As at December 31, 2008, if the Canadian dollar had dropped 1% against the US dollar with all other variables held constant, other comprehensive income would have been \$241 higher, mainly as a result of an increase in the fair value of financial assets classified as available-for-sale. A change in the opposite direction would have a similar impact, but in the opposite direction.

Credit Risk

Credit risk is the risk of financial loss to which the Association could be exposed if one of its debtors does not pay its interest or capital at maturity. The Association applies specific rules with regard to credit in its investment policy.

The objective of the Association's investment policy is to limit this risk by ensuring sound diversification, limiting exposure to a single issuer and seeking a relatively high-quality of issuers. The policy also imposes limits by assets classes, by groups of related issuers that depend on the credit quality of these issuers, and by activity sector and geographic region.

Actuarial liabilities include a provision for default payments on assets held by the Association.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

5. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit Risk (Continued)

In the normal course of business, the Association attempts to limit its risk of loss with regard to any one policyholder or catastrophic event affecting several policyholders and to recover a portion of the claims paid through reinsurance agreements.

These reinsurance agreements do not relieve the Association from its obligations to policyholders. In the event that reinsurers failed to honour their contractual obligations, the Association would be responsible for potential retrocession related risks. Reinsurance is divided among several reinsurers.

The maximum credit risk corresponds to the carrying value of the financial instruments at the balance sheet date.

Liquidity Risk

Liquidity risk is the risk that the Association will not have the necessary funds to fulfill its commitments. Liquidity needs are managed by matching cash flow assets and cash outflow liabilities and by forecasting earned and required yields.

The Association has financial instruments to generate sufficient liquidity to cover the policies' liabilities over the expected terms.

6. INVESTMENTS INCOME

	2008	2007
Change in the fair value of financial assets and liabilities designated as held-for-trading	\$196	\$(459)
Gain on disposal of available-for-sale financial assets	1,622	1,619
Gain on disposal of loan	139	-
Interest income related to financial assets not classified as held-for-trading	4,770	6,285
Other net investment income	8,978	7,353
	\$15,705	\$14,798

7. OPERATING EXPENSES

Operating expenses include a depreciation expense of capital assets of \$860 (2007 - \$952). Operating expenses also include a current income tax expense of \$1,261 (current income tax benefit in 2007 - \$370) and a future income tax benefit of \$1,436 (future income tax expense in 2007 - \$657).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

8. PORTFOLIO INVESTMENTS

	CONDITIONS, INTEREST RATE AND FAIR VALUE				2007
	2008				
	Maturity				
	Less than one year	1 to 5 years	5 years and more	Total	Total
Designated held-for-trading investments					
Term investments and discounted notes	\$6,036			\$6,036	\$564
Average effective rate	1.8%			1.8%	4.3%
Substantially all in securities of governments and governmental institutions					
Bonds	\$3,912	\$12,586	\$13,264	\$29,762	\$32,733
Average effective rate	7.7%	7.3%	6.4%	6.8%	6.8%
Substantially all in securities of governments and governmental institutions					
Held-to-maturity investments					
Term investments	\$6,939			\$6,939	\$5,950
Average effective rate	3.6%			3.6%	4.3%
All in securities of governments and governmental institutions					
Loan					
Mortgage loan					\$868
Average effective rate					9.9%
All related to corporations					
Available-for-sale investments					
Bonds	\$11,509	\$60,274	\$29,819	\$101,602	\$126,130
Average effective rate	2.8%	4.0%	4.8%	4.1%	4.4%
Substantially all in securities of governments and governmental institutions					
Shares				\$43,069	\$15,761
All in securities of corporations					
Common funds				\$95,096	\$110,086
All in securities of big capitalization corporations					
	\$28,396	\$72,860	\$43,083	\$282,504	\$292,092

As at December 31, investments denominated in US dollars converted to CA dollars represented \$24,063 (2007 - \$0).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

9. OTHER ASSETS

	2008	2007
Receivables - insurance companies	\$3,517	\$3,199
Other receivables	891	937
Prepaid expenses	12,012	8,757
Capital assets	1,655	2,103
Income taxes	1,235	770
Future income taxes	1,551	115
	\$20,861	\$15,881

10. POLICIES' LIABILITIES

Assumptions

- **Actuarial Liabilities**

In the computation of the actuarial liabilities of the policies, the valuation assumptions used are based on best estimates for the duration of the policies with regard to several variables, such as mortality, morbidity, return on investment, rates of policy termination, levels of operating expenses, inflation and income taxes. Methods that were used to establish the most important assumptions are as follows:

- **Mortality**

Mortality assumption for the individual life insurance is based on industry experience as published by the Canadian Institute of Actuaries.

- **Morbidity**

Claim incidence rate and disability termination rate used are based on a combination of Association and industry experience. The latter is published by the Society of Actuaries.

- **Return on Investment**

The Association has assets that cover certain business segments. Expected cash flows of these segmented assets have been combined with the future rate of reinvestment obtained from actual income perspectives and from the Association's investment policy, in order to calculate future returns on investment for these assets.

- **Expenses**

Administrative expenses have been calculated based on the Association's internal studies of cost allocations.

- **Policy Termination**

Assumptions for policy termination reflect the Association's recent experience as well as industry experience as published by the Canadian Institute of Actuaries.

The actuarial policies' liabilities of the life insurance subsidiary represent the amounts that, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits and expenses on policies in force. Actuarial liabilities are determined using the policy premium method, in accordance with generally accepted actuarial practices for life and health insurance.

- **Claims Payable**

Claims payable include a provision for existing but unreported claims. This provision takes into consideration claims that occurred prior to year end but for which the policyholder has not submitted a claim or this claim has been submitted but not yet processed by the Association. This provision foresees additional amounts for possible adverse deviations with regards to the most probable assumptions. These amounts vary according to the uncertainty inherent in the assumption.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

10. POLICIES' LIABILITIES (CONTINUED)

• Actuarial Liabilities (Continued)

• Unearned Subscriptions and Premiums

Unearned subscriptions and premiums represent the unearned portion of the subscriptions and premiums for the policies in force as at year end.

• Deposits and Refunds

Most of this amount consists of provisions for refunds and funds constituted for large groups.

Each contract subject to retention is analyzed individually and the provision is determined according to the experience since the last retention report and based on the terms and guarantees of each contract.

Margins for Adverse Deviations

Actuaries must include a margin in each assumption to recognize the uncertainty surrounding the establishment of best estimates, consider a possible deterioration of the experience and provide greater assurance that actuarial liabilities will be sufficient to pay future benefits. The Canadian Institute of Actuaries prescribes a range of permissible margins. The Association's margins are in the recommended range.

Composition of Actuarial Liabilities and Related Supporting Assets

i) Composition of actuarial liabilities is as follows:

	2008		
	Actuarial liabilities	Reinsurance ceded	Net actuarial liabilities
Non-participating policyholders			
Individual – Life	\$5,043	\$826	\$4,217
Individual – Accident and sickness	15,085	3,848	11,237
Group – Life	7,980	2,182	5,798
Group – Accident and sickness	40,852	21,263	19,589
	\$68,960	\$28,119	\$40,841
	2007		
	Actuarial liabilities	Reinsurance ceded	Net actuarial liabilities
Non-participating policyholders			
Individual – Life	\$3,918	\$700	\$3,218
Individual – Accident and sickness	13,625	3,538	10,087
Group – Life	6,828	2,121	4,707
Group – Accident and sickness	43,516	24,553	18,963
	\$67,887	\$30,912	\$36,975

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

10. POLICIES' LIABILITIES (CONTINUED)

Composition of Actuarial Liabilities and Related Supporting Assets (Continued)

ii) Composition of supporting assets is as follows:

	2008						
	Cash	Term investments and discounted notes	Bonds	Shares	Common funds	Other assets	Total
Non-participating policyholders							
Life	\$-	\$310	\$6,863	\$-	\$-	\$2,842	\$10,015
Accident and sickness	1,558	3,893	20,147	-	-	5,228	30,826
Others, including shareholder's equity	3,950	8,772	104,354	43,069	95,096	16,765	272,006
Carrying value	\$5,508	\$12,975	\$131,364	\$43,069	\$95,096	\$24,835	\$312,847
Fair value	\$5,508	\$12,975	\$131,364	\$43,069	\$95,096	\$24,835	\$312,847
	2007						
	Cash	Term investments and discounted notes	Bonds	Shares	Common funds	Other assets	Total
Non-participating policyholders							
Life	\$6	\$-	\$6,193	\$-	\$-	\$1,726	\$7,925
Accident and sickness	137	-	21,287	-	2,576	5,050	29,050
Others, including shareholder's equity	2,781	6,514	132,251	15,761	107,510	13,125	277,942
Carrying value	\$2,924	\$6,514	\$159,731	\$15,761	\$110,086	\$19,901	\$314,917
Fair value	\$2,924	\$6,514	\$159,731	\$15,761	\$110,086	\$19,901	\$314,917

The Association has sufficient assets to cover the actuarial and other liabilities; the surplus far exceeds the statutory requirements.

11. ACCOUNTS PAYABLE

	2008	2007
Insurance companies	\$3,805	\$6,448
Other	10,045	9,437
	\$13,850	\$15,885

12. CAPITAL MANAGEMENT

As part of its capital management, the Association must comply with the regulatory requirements and objectives established by the Autorité des marchés financiers (AMF) that regulates its operations. The Association's capital adequacy requirements (capital adequacy) are regulated according to the guideline established by the AMF, which requires a solvency ratio of 150% or more. The solvency ratio is calculated by dividing available capital by required capital and available capital must be equal to or greater than required capital.

The Association maintained ratios above the regulatory requirements set by the AMF as at December 31, 2008 and as at December 31, 2007.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

13. COMMITMENTS

The Association has lease and contract commitments. The balance of the commitments under such contracts and leases, excluding property taxes and other escalator clauses, is \$16,702. Minimum payments over the next five years are as follows:

2009	2010	2011	2012	2013
\$4,154	\$2,060	\$1,539	\$1,536	\$1,536

14. PENSION PLANS AND OTHER RETIREMENT BENEFITS

The Association offers defined benefit pension plans that provide some of its employees with pension, other retirement and post-employment benefits.

Information on defined benefit plans is as follows:

	2008		2007	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation				
Accrued benefit obligation, beginning of year	\$17,435	\$865	\$16,496	\$871
Current service cost	1,402	7	1,358	5
Employees' voluntary contributions	326	–	61	–
Interest cost	1,022	46	925	44
Benefits paid	(592)	(70)	(545)	(74)
Actuarial loss (actuarial gain)	(5,713)	(138)	(860)	19
Accrued benefit obligation, end of year	\$13,880	\$710	\$17,435	\$865
Plan assets				
Fair value of plan assets, beginning of year	\$12,221	\$–	\$11,200	\$–
Actual return on plan assets	(1,553)	–	347	–
Employer's contributions	899	70	774	74
Employees' regular contributions	426	–	384	–
Employees' voluntary contributions	326	–	61	–
Benefits paid	(592)	(70)	(545)	(74)
Fair value of plan assets, end of year	\$11,727	\$–	\$12,221	\$–
Funding status				
Deficit	\$(2,153)	\$(710)	\$(5,214)	\$(865)
Unamortized actuarial loss	571	56	4 012	204
Accrued benefit liability	\$(1,582)	\$(654)	\$(1,202)	\$(661)

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

14. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

	2008		2007	
	Pension plans	Other plans	Pension plans	Other plans
Current service cost, net of employees' contributions	\$976	\$7	\$974	\$5
Interest cost	1,022	46	925	44
Actual return on plan assets	1,553	–	(347)	–
Actuarial loss (actuarial gain)	(5,713)	(138)	(860)	19
Service cost - before adjustment	(2,162)	(85)	692	68
Difference between expected return and actual return on plan assets for year	(2,374)	–	(404)	–
Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation for year	5,812	148	1,006	(13)
Difference between amortization of past service costs for year and actual plan amendments for the year	3	–	3	–
Defined benefit costs recognized	\$1,279	\$63	\$1,297	\$55

Most important actuarial assumptions used by the Association to determine its accrued benefit obligation are as follows:

	2008		2007	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation as at December 31				
Discount rate	7.5%	7.5%	5.5%	5.5%
Rate of compensation increase	4%	4%	4%	4%
Benefit costs for year ended December 31				
Discount rate	5.5%	5.5%	5.25%	5.25%
Expected long-term rate of return on plan assets	6.5%	–	6.5%	–
Rate of compensation increase	4%	4%	4%	4%
Initial health care cost trend rate	–	5.5%	–	5.5%



NOTES TO FINANCIAL STATEMENTS

As at December 31, 2008 (amounts are expressed in thousands of dollars)

14. PENSION PLANS AND OTHER RETIREMENT BENEFITS (CONTINUED)

The accrued benefit obligation is included with the other accounts payable.

All of the retirement plans are defined benefit plans and non-registered retirement plans are not funded.

Most recent actuarial determination of the accrued benefit obligations of the Non-unionized Workers' Plan and the Unionized Workers' Plan was prepared as at December 31, 2005, and the next determination is to be prepared as at December 31, 2008.

Most recent actuarial determination of the accrued benefit obligations of the Executives' Plan was prepared as at December 31, 2007, and the next determination is to be prepared as at December 31, 2010.

The Association generally distributes all assets of the plans equally among equity accounts and loan accounts.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Following methods and assumptions were used to estimate the fair value of classes of financial instruments:

Fair value of term investments, discounted notes, bonds, shares and common funds is based on quoted market prices.

Fair value of the actuarial liabilities and reinsurance ceded is based on quoted market prices of the financial assets of the actuarial liabilities. The Association annually segments assets supporting actuarial liabilities or the liabilities of the different business lines. It attempts within reasonable limits to match the financial flows of assets with those of corresponding liabilities. Therefore, variations in the realizable values of assets should generally be compensated by variations in corresponding actuarial liabilities.

Other assets and other liabilities are accounted for at cost which is corresponding to their fair value due to short term maturity of these items.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

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PhD, FACC
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Maciej (Mathias) Kalina, MD
CSPQ, FRCPC
Family medicine

Jean Thibault, LPh
Pharmacist

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Mallette
Limited Liability Partnership
Chartered Accountants

Québec Blue Cross®
Ontario Blue Cross™
Canassurance Insurance Company
CanAssistance Inc.

MONTRÉAL – HEAD OFFICE

550 Sherbrooke Street West
Montréal, Québec H3A 3S3
514 286-8400 www.qc.bluecross.ca

TORONTO

185 The West Mall, Suite 610, P.O. Box 2000
Etobicoke, Ontario M9C 5P1
416 626-1688 www.useblue.com

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